

**CONSOLIDATED  
FINANCIAL STATEMENTS  
AND INDEPENDENT  
AUDITORS' REPORT**

For the years ended June 30, 2017 and 2016



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of  
Loyola University of Chicago  
Chicago, Illinois

We have audited the accompanying consolidated financial statements of Loyola University of Chicago ("LUC"), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LUC's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LUC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of LUC as of June 30, 2017 and 2016,

and results of their activities and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte Touche LLP

September 15, 2017

**LOYOLA UNIVERSITY CHICAGO**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*As of June 30, 2017 and 2016 (in thousands of dollars)*

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 73,139	\$ 66,896
Short-term investments	159,779	117,564
Notes and accounts receivable, net	88,046	77,813
Receivable from Trinity Health	10,728	13,983
Other assets	13,674	20,962
Endowment and other long-term investments	674,242	613,374
Assets held in trust by others	1,595	-
Interest held in perpetual trust	12,673	11,703
Land, buildings and equipment, net	1,109,907	1,141,468
<b>TOTAL ASSETS</b>	<b>\$ 2,143,783</b>	<b>\$ 2,063,763</b>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 56,138	\$ 51,413
Deferred revenue	46,540	34,872
Unexpended grants	11,329	11,419
Refundable advances - loans	19,527	19,486
Indebtedness	446,433	483,002
Pension and other postretirement plan liabilities	79,065	88,552
Other liabilities	5,120	4,497
<b>TOTAL LIABILITIES</b>	<b>664,152</b>	<b>693,241</b>
NET ASSETS:		
Unrestricted	1,114,437	1,035,425
Temporarily restricted	187,396	165,132
Permanently restricted	177,798	169,965
<b>TOTAL NET ASSETS</b>	<b>1,479,631</b>	<b>1,370,522</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,143,783</b>	<b>\$ 2,063,763</b>

*See notes to the consolidated financial statements.*

**LOYOLA UNIVERSITY CHICAGO**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

For the years ended June 30, 2017 and 2016 (in thousands of dollars)

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016
<b>OPERATING REVENUES:</b>								
Tuition and fees, net of scholarships \$186,195 (2017) and \$162,597 (2016)	\$ 381,538	\$ -	\$ -	\$ 381,538	\$ 360,285	\$ -	\$ -	\$ 360,285
Grants and contracts for sponsored projects	44,410			44,410	46,013			46,013
Academic support	23,549			23,549	23,409			23,409
Gifts	3,529			3,529	2,300			2,300
Return on short-term investments and interest income	2,286			2,286	2,286			2,286
Investment income designated for operations	8,327			8,327	7,245			7,245
Other	31,052			31,052	32,576			32,576
Auxiliary services	70,108			70,108	66,002			66,002
Net assets utilized or released from restrictions for operations	17,375			17,375	18,255			18,255
<b>TOTAL OPERATING REVENUES</b>	<b>582,174</b>			<b>582,174</b>	<b>558,371</b>			<b>558,371</b>
<b>OPERATING EXPENSES:</b>								
Salaries and wages	248,426			248,426	243,563			243,563
Fringe benefits	70,540			70,540	70,145			70,145
Non-salary operating expenses	130,078			130,078	126,589			126,589
Insurance	3,008			3,008	2,527			2,527
Depreciation and amortization	58,852			58,852	57,316			57,316
Interest	16,914			16,914	17,426			17,426
Utilities	11,064			11,064	11,053			11,053
<b>TOTAL OPERATING EXPENSES</b>	<b>538,882</b>			<b>538,882</b>	<b>528,619</b>			<b>528,619</b>
<b>RESULTS OF OPERATIONS</b>	<b>43,292</b>			<b>43,292</b>	<b>29,752</b>			<b>29,752</b>
<b>NON-OPERATING ACTIVITIES:</b>								
Gifts		11,592	6,685	18,277	-	10,951	5,770	16,721
Investment gain (loss), net of amounts designated for operations	28,625	29,405	224	58,254	(8,876)	(1,693)	(2)	(10,571)
Other	1,362	(474)	920	1,808	(5,384)	(250)	(137)	(5,771)
Retirement plan related changes other than net periodic retirement plan expense	4,853			4,853	(18,825)			(18,825)
Net assets transferred or released from restrictions	880	(18,259)	4	(17,375)	1,863	(20,283)	165	(18,255)
<b>TOTAL NON-OPERATING ACTIVITIES</b>	<b>35,720</b>	<b>22,264</b>	<b>7,833</b>	<b>65,817</b>	<b>(31,222)</b>	<b>(11,275)</b>	<b>5,796</b>	<b>(36,701)</b>
<b>CHANGE IN NET ASSETS</b>	<b>79,012</b>	<b>22,264</b>	<b>7,833</b>	<b>109,109</b>	<b>(1,470)</b>	<b>(11,275)</b>	<b>5,796</b>	<b>(6,949)</b>
Total net assets, beginning of year	1,035,425	165,132	169,965	1,370,522	1,036,895	176,407	164,169	1,377,471
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 1,114,437</b>	<b>\$ 187,396</b>	<b>\$ 177,798</b>	<b>\$ 1,479,631</b>	<b>\$ 1,035,425</b>	<b>\$ 165,132</b>	<b>\$ 169,965</b>	<b>\$ 1,370,522</b>

See notes to the consolidated financial statements.

## LOYOLA UNIVERSITY CHICAGO

### CONSOLIDATED STATEMENTS OF CASH FLOWS

*For the years ended June 30, 2017 and 2016 (in thousands of dollars)*

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase/(Decrease) in net assets	\$ 109,109	\$ (6,949)
Adjustments to reconcile increase/(decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	58,852	57,316
Provision for bad debt expense	1,735	2,187
Retirement plan related changes	(4,853)	18,825
Provision for retirement costs	5,155	4,829
Net realized and unrealized (gain) loss on investments	(60,251)	9,666
Contributions restricted for long-term investment	(6,574)	(5,183)
Other	(12,907)	(5,265)
Changes in assets and liabilities:		
Notes and accounts receivable, net	(11,769)	(4,724)
Other assets	(284)	(891)
Accounts payable and accrued expenses	(575)	119
Deferred revenue and unexpended grants	11,578	3,948
Interest held in perpetual trust	(970)	114
Refundable advances - loans	41	309
Other liabilities	520	363
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>88,807</b>	<b>74,664</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	102,420	247,288
Purchase of investments	(102,294)	(267,475)
Purchases/sales of short-term investments, net	(42,958)	24,539
Proceeds from sale of property	7,638	(446)
Expenditures for land, buildings and equipment	(20,829)	(68,382)
Student loans issued	(3,908)	(5,075)
Student loans collected	3,709	3,797
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(56,222)</b>	<b>(65,754)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions restricted for long-term investment	6,574	5,183
Issuance of new debt		1,247
Retirement of debt	(36,171)	(35,560)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(29,597)</b>	<b>(29,130)</b>
<b>NET CASH PROVIDED FROM DISCONTINUED OPERATIONS</b>	<b>3,255</b>	<b>26,453</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>6,243</b>	<b>6,233</b>
Cash and cash equivalents, beginning of year	66,896	60,663
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 73,139</b>	<b>\$ 66,896</b>

*See notes to the consolidated financial statements.*

# LOYOLA UNIVERSITY CHICAGO

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*For the years ended June 30, 2017 and 2016*

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### (1) Overview of Loyola University of Chicago

Loyola University of Chicago (referred to as Loyola University Chicago or LUC) is a private, coeducational, not-for-profit institution of higher education and research founded in 1870 by the Society of Jesus (Jesuits). LUC's patron saint and namesake is St. Ignatius Loyola (1491-1556), the founder of the Society of Jesus, which today is the largest religious order in the Roman Catholic Church. LUC operates on eight campuses providing educational services to approximately sixteen thousand students primarily in undergraduate degree programs as well as graduate and professional degree programs. LUC performs research, training, and other services under grants and contracts with government agencies and other sponsoring organizations. The LUC consolidated financial statements are comprised of Higher Education, Mundelein College (Mundelein), and Loyola Rome Center Foundation (Foundation). Mundelein exists to provide limited services for the benefit of LUC. The Foundation fosters, promotes, disseminates, and enhances the mission and values that govern LUC's John Felice Rome Center campus and LUC's programs in Italy.

### (2) Tax Status

LUC and Mundelein are Illinois not-for-profit corporations and are exempt from federal income taxes under section 501(c)(3) of the U.S. Internal Revenue Code (IRC). The Foundation is an Italian entity organized under Italian law.

### (3) Summary of Significant Accounting Policies

#### Basis of Presentation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). These principles require management to make estimates and judgments affecting the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the reporting period. Actual results could differ from these estimates. Net assets, revenues, and investment income or loss are classified based on the existence or absence of donor-imposed restrictions, as follows:

**Permanently Restricted** - Net assets subject to donor-imposed restrictions requiring that the assets be retained permanently and invested. Restrictions permit the use of some or all of the income earned on the invested assets for specific purposes.

**Temporarily Restricted** - Net assets with donor-imposed restrictions expiring with the passage of time, the occurrence of an event, or the fulfillment of certain conditions. When donor-imposed restrictions are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets transferred or released from restrictions.

**Unrestricted** - Net assets not subject to donor-imposed restrictions.

#### Operations

Revenues received and expenses incurred in conducting LUC's programs and services are presented in the consolidated financial statements as operating activities. Non-operating activities include investment gain or loss, change in retirement plan, gains or losses on the sale or disposal of property, and non-recurring items.

Contributions, including unconditional promises to give (pledges) that are reasonably assured to be received, are recognized as revenue in the period received and reported at present value. Gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations limiting their use. The expiration or fulfillment of donor-imposed restrictions on contributions is recognized in the period in which the restrictions expire or the restrictions are fulfilled and are shown as net assets utilized or released from restrictions for operations in operating revenue.

Certain unrestricted net assets are designated by the Board of Trustees for specific purposes or uses under various internal agreements.

Tuition and fee revenue is reported in the fiscal year in which it is earned, including pro-rata adjustments for terms crossing over fiscal years. Grant and contract revenue is recognized when the qualifying expenses or activities occur. Academic support and auxiliary service revenues are recognized when earned as unrestricted net assets.

### **Cash and Cash Equivalents**

Cash and cash equivalents are liquid instruments having original maturities at the time of purchase of three months or less, or funds investing primarily in such instruments, excluding those held in short-term and long-term investments or which are on deposit with a trustee. Cash and cash equivalents represent short-term, highly liquid investments that convert readily to cash and carry little interest rate risk.

### **Short-term Investments**

Short-term investments are comprised of investments in securities or funds whose maturities and duration extend beyond the characteristics of cash and cash equivalents but are not considered long-term investments. Short-term investments are recorded at fair value and are generally priced and available on a daily basis.

Investment income is recorded on the accrual basis and purchases and sales of short-term investment securities are recorded on a trade-date basis.

### **Other Assets**

Other assets are mostly comprised of prepaid expenses, land held for resale and capital leases.

### **Long-term Investments**

Long-term investments are recorded at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset, or the amount that would be paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Investments in publicly-traded equity securities are valued based on quoted market prices. To the extent that quoted market prices are not readily available, fair value may be determined based on broker or dealer quotations or alternate pricing sources with reasonable levels of price transparency. Securities that trade infrequently may be valued as determined in good faith by LUC's investment managers. The fair value of fixed income securities may be determined based on yields currently available on comparable securities of issuers with similar credit ratings, dealer-supplied prices or by discounting future principal and interest payments at prevailing interest rates. The fair value of holdings of mutual funds, common collective trusts, and commingled funds are determined by reference to the funds' underlying assets, which are principally marketable equity and fixed income securities. Units held in registered mutual funds and in common collective trusts and commingled funds that do not have a readily determined market value for fund units are valued based on the funds' net asset value as supplied by the fund administrator or trustee. Estimates of fair value provided by general partners or investment managers are reviewed by management.



Investments in private investment funds are recorded at estimated fair value based on LUC's share of the funds' fair value or number of units outstanding. A private investment fund's fair value is typically based on estimated asset values as of valuation dates that precede the LUC fiscal year end by up to 180 days and are adjusted for cash flows that occur between the valuation date and year end. These funds allocate gains, losses, and expenses to partners based on their respective ownership percentages or the number of units held. Management reviews reports and financial statements and communicates regularly with fund managers to maintain oversight of their valuation processes and estimates.

Investment income is recorded on the accrual basis. Purchases and sales of long-term investment securities are recorded on a trade-date basis.

### **Derivative Financial Instruments**

LUC may use derivative financial instruments in the management of its treasury and investment portfolio. In addition, investment managers employed by LUC may use derivative instruments to implement their investment strategies. Investments in derivative financial instruments are not designated as hedges. All derivative financial instruments used for investment purposes are marked to market and recorded at fair value. Gains and losses realized on derivative financial instruments used for investment purposes are recorded in investment gain/loss in the consolidated statements of activities and changes in net assets.

### **Interest Held in Perpetual Trust**

LUC is the beneficiary of funds held in trust. LUC does not control or have possession of these funds, but receives income from the trust in support of LUC's Health Sciences Division (HSD). Funds are recognized at the estimated fair value of future cash flows, which is estimated to equal the fair value of the trust assets.

### **Land, Buildings and Equipment**

Land, buildings and equipment are recorded at cost or fair value at the date of gift to the University. Depreciation is calculated on a straight-line method using the following useful lives: building shell, 40-50 years; building improvements, 10-25 years; furniture, 15-20 years; and equipment, 3-10 years. LUC capitalizes assets with a purchase price or fair value of \$5,000 or greater and with a useful life of over 1 year. LUC uses the component method of capitalization. Management continually reviews its long-lived assets for evidence of potential impairment and believes all necessary impairments have been recorded as of June 30, 2017.

### **Accounting Pronouncements**

In 2017, LUC adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs. This standard requires all debt issuance costs to be presented in the statement of financial position as a direct deduction from the carrying value of the associated debt liability versus being shown as a prepaid expense. The 2016 statement of financial position and Note 7 (Indebtedness) have been restated to reflect the implementation of the new guidance retrospectively.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The standard requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance uses a principles based approach for determining revenue recognition and eliminates the transaction and industry-specific guidance. The guidance requires quantitative and qualitative disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. Based on a preliminary assessment, it is not expected that the adoption of the standard will have a material impact on revenue recognition. Management continues to evaluate the impact this

will have on LUC's future financial statements. The standard is effective for fiscal years beginning after December 31, 2018, which is fiscal year 2019 for LUC.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The first of a two-phase project, this guidance addresses net asset classifications, reporting and disclosures related to liquidity, expense reporting by function and nature, financial performance measures, and the presentation of operating cash flows. Based on a preliminary assessment, the impact to the financial statements will include a reduction in net asset classes from three to two, additional liquidity disclosures on management of liquidity risk and the availability of financial assets to meet operational cash needs within one year, and additional disclosures related to the allocation of functional expenses. The standard is effective for fiscal years beginning after December 15, 2018, which is fiscal year 2019 for LUC. Management continues to evaluate the impact this will have on LUC's future financial statements.

#### (4) Investments

Under authority delegated by the Board of Trustees, the Investment Policy Committee of the Board of Trustees establishes the investment policy and guidelines governing the management of LUC's investments. The strategy for long-term investments is predicated on the objective of growth and preservation of the purchasing power of invested assets; therefore, it is equity-oriented and includes marketable equities, private equity investments, and energy and real estate investments, with diversifying exposure to fixed income investments and hedging strategies. Short-term investments are primarily managed with an objective to ensure safety of principal and a high level of liquidity to meet the needs of LUC's operations. Substantially all investments are managed by external investment managers and all are held in custody by third-party financial institutions.

##### Functional Composition

LUC's total endowment and other long-term investments are comprised primarily of endowed funds and board-designated funds functioning as endowment (quasi-endowments). It also includes unrestricted institutional funds, split-interest agreements, and other non-endowed donor and university funds. The table below presents the functional composition of LUC's total endowment and other long-term investments at June 30, 2017 and 2016:

(in thousands of dollars)	<u>2017</u>	<u>2016</u>
Donor-restricted endowment funds	\$ 294,180	\$ 266,698
Board-designated funds functioning as endowment	<u>299,686</u>	<u>267,907</u>
Total endowment investments	593,866	534,605
Institutional reserves	<u>69,885</u>	<u>69,185</u>
Total long-term investment pool	663,751	603,790
Split-interest agreements	9,603	8,690
Other invested assets	<u>888</u>	<u>894</u>
Total endowment and other long-term investments	<u>\$ 674,242</u>	<u>\$ 613,374</u>

In addition to the above, LUC had short-term investments of \$159.8 million and \$117.6 million at June 30, 2017 and 2016, respectively.

## Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification (ASC) establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three categories:

- Level 1 - Unadjusted quoted prices in active markets for identical instruments.
- Level 2 - Quoted prices in active markets for similar instruments, quoted prices in inactive markets for identical or similar instruments, or model-derived valuations in which all significant inputs are directly or indirectly observable.
- Level 3 - Model-derived valuations in which one or more significant inputs are unobservable, including investment managers' own assumptions about the assumptions market participants would use to price an instrument based on the best available information.

Fair value for investments in certain commingled funds and private partnerships that utilize a net asset value (NAV) per share or that report capital account balances on an equivalent pro-rata basis is estimated, as a practical expedient, to equal the reported NAV for such shares or reported partner's capital balance, as applicable. These investments consist of funds holding primarily publicly traded equity and fixed income securities as well as private partnerships holding equity stakes in public and non-public companies where fund or partnership interests or shares/units are not publicly quoted or traded.

## Short-term Investments

The tables below summarize LUC's fair value measurements for short-term investments by the fair value hierarchy levels as of June 30, 2017 and 2016:

(in thousands of dollars)	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<u>2017</u>			
Cash and cash equivalents	\$ 691	\$ 691	\$ -
Fixed income mutual funds	64,315	64,315	
U.S. Treasury and government agency debt securities	24,504		24,504
Non-U.S. agency debt securities	275		275
Municipal debt securities	4,759		4,759
Corporate debt securities	53,293		53,293
Mortgage-related securities	5,655		5,655
Asset-backed securities	6,138		6,138
Collateralized mortgage obligations	149		149
Total	<u>\$ 159,779</u>	<u>\$ 65,006</u>	<u>\$ 94,773</u>
<u>2016</u>			
Cash and cash equivalents	\$ 874	\$ 874	\$ -
Fixed income mutual funds	32,830	32,830	
U.S. Treasury and government agency debt securities	16,920		16,920
Non-U.S. agency debt securities	2,730		2,730
Municipal debt securities	5,747		5,747
Corporate debt securities	40,422		40,422
Mortgage-related securities	5,623		5,623
Asset-backed securities	12,219		12,219
Collateralized mortgage obligations	199		199
Total	<u>\$ 117,564</u>	<u>\$ 33,704</u>	<u>\$ 83,860</u>

## Endowment and Other Long-term Investments

The tables below summarize the endowment and other long-term investment portfolio's fair value measurements by fair value hierarchy level and NAV (or its equivalent) as a practical expedient as of June 30, 2017 and 2016:

(in thousands of dollars)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV Prac Exp</u>
<u>2017</u>					
Cash and Cash Equivalents	\$ 3,017	\$ 3,017	\$ -	\$ -	\$ -
U.S. Marketable Equity Securities	87,566	87,566			
U.S. Marketable Equity Mutual Funds	48,525	48,525			
Non-U.S. Marketable Equity Securities	6,348	6,348			
Non-U.S. Marketable Equity Mutual Funds	1,929	1,929			
Marketable Equity Commingled Funds	241,531				241,531
Other Equity Securities	200			200	
Fixed Income Mutual Funds	27,974	27,974			
Fixed Income Commingled Funds	67,685				67,685
Other Fixed Income Securities	15,895	15,895			
U.S. Treasury and Government					
Agency Debt Obligations	58,568	17,927	40,641		
Private Equity Investments	66,413				66,413
Real Assets Mutual Funds	23,700	23,700			
Private Real Assets Investments	<u>24,891</u>				<u>24,891</u>
Total	\$ <u>674,242</u>	\$ <u>232,881</u>	\$ <u>40,641</u>	\$ <u>200</u>	\$ <u>400,520</u>
<u>2016</u>					
Cash and Cash Equivalents	\$ 3,359	\$ 3,359	\$ -	\$ -	\$ -
U.S. Marketable Equity Securities	57,732	57,732			
U.S. Marketable Equity Mutual Funds	54,080	54,080			
Non-U.S. Marketable Equity Securities	10,869	10,869			
Non-U.S. Marketable Equity Mutual Funds	1,530	1,530			
Marketable Equity Commingled Funds	214,301				214,301
Other Equity Securities	200			200	
Fixed Income Mutual Funds	21,060	21,060			
Fixed Income Commingled Funds	86,018				86,018
Other Fixed Income Securities	16,855	16,855			
U.S. Treasury and Government					
Agency Debt Obligations	50,569	9,248	41,321		
Private Equity Investments	54,879				54,879
Real Assets Mutual Funds	24,152	24,152			
Private Real Assets Investments	<u>17,770</u>				<u>17,770</u>
Total	\$ <u>613,374</u>	\$ <u>198,885</u>	\$ <u>41,321</u>	\$ <u>200</u>	\$ <u>372,968</u>



The following table summarizes changes in fair value of the Level 3 investments in the endowment and other long-term investment portfolio for the years ended June 30, 2017 and June 30, 2016:

(in thousands of dollars)	Other Equity <u>Securities</u>	<u>Total</u>
<u>2017</u>		
Balance at July 1, 2016	\$ 200	\$ 200
Realized gain (loss)	( 10)	( 10)
Unrealized gain (loss)	10	10
Purchases		
Sales		
Transfers to (from) Level 3		
Balance at June 30, 2017	\$ <u>200</u>	\$ <u>200</u>
<u>2016</u>		
Balance at July 1, 2015	\$ 200	\$ 200
Realized gain (loss)		
Unrealized gain (loss)		
Purchases		
Sales		
Transfers to (from) Level 3		
Balance at June 30, 2016	\$ <u>200</u>	\$ <u>200</u>

All gains and losses shown above are included in reported earnings for the period. There is no change in unrealized gains (losses) that is attributable to assets still held at the reporting date as of June 30, 2017 and 2016.

There were no significant transfers between fair value hierarchy levels for the years ended June 30, 2017 and 2016. LUC recognizes transfers between hierarchy levels as of the beginning of the month in which a change in inputs or circumstances under which an asset is valued occurs. Significance is determined by reference to a transferred asset's fair value in relation to the aggregate value of LUC's long-term investments, with a transfer of value in excess of five percent of total long-term investments generally deemed significant.

LUC is obligated to make future capital contributions in private investment vehicles in the maximum amount of \$88.2 million over the next several years, subject to investment period modifications provided for in fund offering documents or limited partnership agreements.

Fair value estimates for investment funds valued at NAV (or its equivalent) as a practical expedient at June 30, 2017 are in the table below.

(in thousands of dollars)

<u>Investment Type</u>	<u>2017 Fair Value</u>	<u>2017 Unfunded Commitment</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Other Redemption Restrictions</u>
Marketable equity commingled funds	\$ 241,531	\$ -	Semimonthly to triannually	Five business days to ninety days	Various initial lockup periods, potential redemption fees, limits on redeemable proportion of outstanding balances, and provisions allowing partial redemptions despite lockups
Fixed income commingled funds	67,685	5,000	Monthly to biannually	Ten business days to ninety days	Various initial lockup periods, limits on redeemable proportion of outstanding balances, and provisions allowing partial redemptions despite lockups
Private equity investments	66,413	61,264	Directed by investment manager	N/A	None
Private real assets investments	24,891	21,962	Directed by investment manager	N/A	None
Total	<u>\$ 400,520</u>	<u>\$ 88,226</u>			

The marketable equity commingled funds category is comprised of investments in funds primarily holding publicly-traded US and non-US equity securities, including long-short equity funds that can vary their net exposures across global markets. The fixed income commingled funds category is comprised of funds that invest primarily in US high yield bonds, sovereign debt issues of various countries, and global corporate debt securities, including structured products. The private equity investments and private real assets fund categories are comprised of closed-end fund investments primarily holding controlling equity stakes in private firms and real estate assets.

### Interest Held in Perpetual Trust

LUC's interest held in perpetual trust is classified as Level 3 in the fair-value hierarchy based on guidance in the FASB ASC. The table below summarizes the changes in LUC's fair value measurements for the interest held in perpetual trust as of June 30, 2017 and 2016:

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
Balance at July 1	\$ 11,703	\$ 11,817
Realized gain	301	676
Unrealized gain (loss)	832	( 637)
Sales	( 163)	( 153)
Balance at June 30	<u>\$ 12,673</u>	<u>\$ 11,703</u>

### Derivative Financial Instruments

Derivative financial instruments may be used in the management of the LUC investment portfolio. This is generally done to assist in rebalancing its asset mix and to invest cash that would otherwise earn a low rate of return. As of June 30, 2017 and 2016, the investment portfolio held futures contracts with a notional value of \$23.1 million and \$26.3 million, respectively. The net impact of the futures held at June 30, 2017 is to reduce the proportion of cash in the endowment portfolio by 3.5% while increasing equity exposure by 0.8% and fixed income exposure by 2.7%.

Futures contracts are exchange-traded and subject to the market risk of the underlying indexes from which their prices are derived.

At June 30, 2017, there were no options held in the investment portfolio. At June 30, 2016, one call option was written (as part of the strategy of an investment manager) on stock held in the portfolio. Call options written are subject to the risk of loss from an obligation to sell underlying securities at a price below the then-current market price.

The fair value of derivative instruments as of June 30, 2017 and 2016 is as follows:

(in thousands of dollars)

<u>Derivative Type</u>	<u>Consolidated Statements of Financial Position Location</u>	<u>2017</u>	<u>2016</u>
Equity options contracts	Endowment and other long-term investments	-	( 10)
Total derivatives		<u>\$ -</u>	<u>\$ ( 10)</u>

The effect of derivative instruments on the consolidated statements of activities and changes in net assets as of June 30, 2017 and 2016 is as follows:

(in thousands of dollars)

<u>Derivative Type</u>	<u>Location of Gain Recognition in Consolidated Statements of Activities and Changes in Net Assets</u>	<u>2017</u>	<u>2016</u>
Equity, fixed income, and currency futures	Investment gain – non-operating	\$ 1,117	\$ 1,415
Equity options contracts	Investment gain – non-operating	<u>10</u>	<u>38</u>
Total derivatives		<u>\$ 1,127</u>	<u>\$ 1,453</u>

### Investment Returns

Investment returns, net of management fees, for short-term and long-term investments, for the years ended June 30, 2017 and 2016 were:

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
Interest and dividend income (net of fees)	\$ 8,616	\$ 8,627
Net realized gains	605	7,577
Net unrealized gains (losses)	<u>59,646</u>	<u>( 17,243)</u>
Total net return on investment	<u>\$ 68,867</u>	<u>\$ ( 1,039)</u>

Returns earned on long-term investments are classified as non-operating activities in the statement of activities and changes in net assets, while returns earned on short-term investments and operating cash are classified under operating revenues. In addition, expenditures of accumulated investment return earned on board-designated funds functioning as endowment funds are classified as investment income designated for operations under operating revenues, and are deducted from non-operating investment returns, within unrestricted net assets.

The table below reconciles total investment return with its reporting in the statement of activities and changes in net assets:

	<u>2017</u>	<u>2016</u>
<b>Changes in unrestricted net assets</b>		
Operating and non-operating investment income	\$ 10,613	\$ 9,532
Non-operating investment gain (loss), net of amounts designated for operations	28,625	( 8,876)
<b>Changes in temporarily restricted net assets</b>		
Non-operating investment gain (loss)	29,405	( 1,693)
<b>Changes in permanently restricted net assets</b>		
Non-operating investment gain (loss)	<u>224</u>	<u>( 2)</u>
Total investment return	\$ <u>68,867</u>	\$ <u>( 1,039)</u>

### Endowment Net Assets

LUC's endowment consists of hundreds of individual funds established for a variety of purposes supporting LUC operations. Endowment fund balances, including funds functioning as endowment (quasi-endowments), are classified and reported as unrestricted, temporarily restricted or permanently restricted net assets in accordance with donor specifications and GAAP. While funds functioning as endowment (quasi-endowment) are not subject to donor restrictions, approval by the Board of Trustees is required to spend from or otherwise alter the designated principal of these unrestricted funds.

The LUC Board of Trustees has reviewed the Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA or the Act) and, having considered its rights and obligations thereunder, has determined that it is desirable for LUC to preserve, on a long-term basis, the original value of a contribution of a donor-restricted endowment fund as of the gift date, subject to any express language in the applicable endowment agreement indicating otherwise and pursuant to UPMIFA. Notwithstanding the foregoing, this determination is not intended to, and shall not, affect LUC's authority under UPMIFA to spend any amounts from an endowment fund on a short-term basis even if the market value of the endowment fund is below the original value of the contributions by the donor. As a result of this determination, LUC classifies as permanently restricted net assets (a) the original value of gifts contributed to a permanent donor-restricted endowment fund, and (b) the original value of subsequent gifts to a permanent donor-restricted endowment fund. The remaining portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets.

In accordance with the Act, LUC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The purposes of LUC and of the donor-restricted endowment fund;
- The duration and preservation of the fund;
- General economic conditions;
- The possible effects of inflation and deflation;
- The investment policies of LUC;
- The expected total return from income and the appreciation of investments;
- Other LUC resources

LUC uses a total return-linked spending policy designed to preserve the value of the endowment in real terms (i.e. after inflation) and to generate a predictable stream of income to support spending. Endowment spending can consist of interest, dividends or accumulated capital gains, and the proportion of each varies from year to year as a result of the emphasis on total return. The primary benefit of a total return-linked spending policy is to separate the spending decision from short-term investment results.



The primary objective of the endowment’s investment policy is to provide a stable source of funding for LUC programs, financial aid, and faculty support that will maintain and expand the purchasing power of endowment payout over a long-term time horizon.

Target allocations, and acceptable ranges of deviation from them, are established in order to achieve a diversified investment portfolio that can adapt to changing market environments and investment opportunities. The endowment portfolio is also managed to ensure that, within the constraints of its asset allocation targets, sufficient liquidity is maintained to fund ongoing spending draws and the periodic funding requirements of its various investments.

The following table summarizes the asset allocation targets as of June 30, 2017 for the endowment portfolio (which also applies uniformly to the total investment pool):

Target <u>Asset Class</u>	<u>Allocation</u>
Global equity	50.0%
Private capital	12.5%
Real assets	10.0%
Credit	12.5%
Fixed income	15.0%
Cash	0%

Current endowment spending policy establishes a maximum budgeted spending rate in any given year of 5.0% of an endowment fund’s net assets. Proposals for endowed funds to apply a spending rate in excess of 5.0% must be approved as part of the annual budget approval process. In absence of donor stipulations to the contrary, annual appropriations from an endowment fund are determined by application of an annually-determined base budget calculation to the endowment funds’ NAV as of a measurement date preceding the beginning of the fiscal year in which the appropriated amounts are to be drawn.

Endowment net assets at June 30, 2017 and 2016 are classified as follows:

(in thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>2017</u>				
Donor-restricted endowment funds	\$ ( 74)	\$ 135,194	\$ 159,004	\$ 294,124
Board-designated funds functioning as endowment	<u>299,326</u>			<u>299,326</u>
Total endowment net assets	\$ <u>299,252</u>	\$ <u>135,194</u>	\$ <u>159,004</u>	\$ <u>593,450</u>
<u>2016</u>				
Donor-restricted endowment funds	\$ ( 167)	\$ 115,393	\$ 151,339	\$ 266,565
Board-designated funds functioning as endowment	<u>267,049</u>			<u>267,049</u>
Total endowment net assets	\$ <u>266,882</u>	\$ <u>115,393</u>	\$ <u>151,339</u>	\$ <u>533,614</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires LUC to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and totaled \$0.1 million as of June 30, 2017 and \$0.2 million as of June 30, 2016.

The following tables provide a summary of the changes in the endowment net assets for the years ended June 30, 2017 and 2016:

(in thousands of dollars)

<u>2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 266,882	\$ 115,393	\$ 151,339	\$ 533,614
Gifts and transfers				
Contributions (excluding pledges)		4	6,574	6,578
Transfers	<u>9,611</u>	<u>( 213)</u>	<u>1,091</u>	<u>10,489</u>
Total gifts and transfers	9,611	( 209)	7,665	17,067
Investment income				
Interest and dividends (net of fees)	2,409	2,284		4,693
Realized gain	302	267		569
Unrealized gain	<u>27,086</u>	<u>25,798</u>		<u>52,884</u>
Total investment income	29,797	28,349		58,146
Income distributed for operating purposes				
Scholarships	( 3,266)	( 3,719)		( 6,985)
Endowed chairs	( 1,490)	( 2,248)		( 3,738)
Research	( 224)	( 483)		( 707)
Other	<u>( 2,058)</u>	<u>( 1,889)</u>		<u>( 3,947)</u>
Total income distributed for operating purposes	<u>( 7,038)</u>	<u>( 8,339)</u>		<u>( 15,377)</u>
Net assets, end of year	\$ <u>299,252</u>	\$ <u>135,194</u>	\$ <u>159,004</u>	\$ <u>593,450</u>
<u>2016</u>				
Net assets, beginning of year	\$ 270,660	\$ 125,436	\$ 145,571	\$ 541,667
Gifts and transfers				
Contributions (excluding pledges)	1	4	5,183	5,188
Transfers	<u>3,845</u>	<u>22</u>	<u>585</u>	<u>4,452</u>
Total gifts and transfers	3,846	26	5,768	9,640
Investment income				
Interest and dividends (net of fees)	2,645	2,528		5,173
Realized gain	3,718	3,559		7,277
Unrealized loss	<u>( 8,283)</u>	<u>( 7,905)</u>		<u>( 16,188)</u>
Total investment loss	( 1,920)	( 1,818)		( 3,738)
Income distributed for operating purposes				
Scholarships	( 2,048)	( 3,751)		( 5,799)
Endowed chairs	( 1,329)	( 2,254)		( 3,583)
Research	( 199)	( 462)		( 661)
Other	<u>( 2,128)</u>	<u>( 1,784)</u>		<u>( 3,912)</u>
Total income distributed for operating purposes	<u>( 5,704)</u>	<u>( 8,251)</u>		<u>( 13,955)</u>
Net assets, end of year	\$ <u>266,882</u>	\$ <u>115,393</u>	\$ <u>151,339</u>	\$ <u>533,614</u>

### Split-Interest Agreements

Split-interest agreements consist of arrangements with donors in which LUC shares an interest in the assets held and the benefits received with other beneficiaries. Split-interest agreements for which LUC is not the trustee may or may not be reported on the consolidated statements of financial position, depending on whether a donor or trustee has made LUC aware of the existence of LUC's beneficial interest. Known split-interest agreements for which LUC is not a trustee are reported as other assets in the consolidated statements of financial position.

The assets held under split-interest agreements (charitable trusts for which LUC is the trustee and assets held in respect to gift annuity contracts) were \$9.6 million and \$8.7 million, respectively, at June 30, 2017 and 2016 and are reported in endowment and other long-term investments in the consolidated statements of financial position at fair value. The discounted present value of any income beneficiary interest is included in accounts payable and other accrued expenses on the consolidated statements of financial position, and was \$4.3 million as of June 30, 2017 and 2016. The discount rate used is 6.5% in both fiscal years 2017 and 2016.

During fiscal year 2017, the discounted present values of new gifts subject to split-interest agreements, net of the income beneficiary share, were \$0.1 million, and were included in non-operating gifts on the consolidated statements of activities and changes in net assets.

Actuarial gains or (losses) on split-interest agreements are included in other in the non-operating activities section of the consolidated statements of activities and changes in net assets, and were \$(0.5) million and \$(0.3) million in fiscal years 2017 and 2016, respectively.

Net assets corresponding to LUC's interest that are subject to donor-imposed restrictions requiring that distributions be invested in perpetuity are classified as permanently restricted net assets in the consolidated statements of financial position; all others are classified as temporarily restricted net assets in the consolidated statements of financial position until the expiration of the donor-imposed restrictions, at which point they will be released as unrestricted net assets unless otherwise subject to donor-imposed spending conditions.

#### (5) Notes and Accounts Receivable, Net

Notes and accounts receivable, net, at June 30, 2017 and 2016 consisted of:

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
Student loan notes (less allowance for doubtful accounts of \$2,417 (2017) and \$2,322 (2016))	\$ 19,407	\$ 21,310
Contributions receivable (less discount of \$11,080 (2017) and \$12,836 (2016) and allowance for doubtful accounts of \$347 (2017) and \$270 (2016))	25,261	25,430
Student receivables (less allowance for doubtful accounts of \$4,443 (2017) and \$5,140 (2016))	20,825	10,634
Grant receivables	5,576	7,090
Other receivables (less allowance for doubtful accounts of \$120 (2017) and \$160 (2016))	16,977	13,349
Total notes and accounts receivable, net	<u>\$ 88,046</u>	<u>\$ 77,813</u>

Contributions receivable at June 30, 2017 and 2016 are due in the following periods:

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
In one year or less	\$ 3,143	\$ 1,766
Between one year and five years	9,646	10,229
More than five years	23,899	26,541
Discount of \$11,080 (2017) and \$12,836 (2016) and allowance for doubtful accounts of \$347 (2017) and \$270 (2016)	( 11,427)	( 13,106)
Total contributions receivable	<u>\$ 25,261</u>	<u>\$ 25,430</u>

## Credit Quality of Student Loan Notes

LUC makes uncollateralized loans to students based on financial need. Student loan notes are funded through federal government loan programs or institutional/other resources. At June 30, 2017 and 2016, student loan notes represented 0.9% and 1.0% of total assets, respectively.

At June 30, student loan notes consisted of the following:

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
Federal government programs	\$ 19,319	\$ 21,371
Institutional/other programs	<u>2,505</u>	<u>2,261</u>
Total student loan notes	21,824	23,632
Less allowance for doubtful accounts:		
Beginning of year	( 2,322)	( 1,986)
Increase to reserve	( 373)	( 411)
Write-offs	<u>278</u>	<u>75</u>
End of year	<u>( 2,417)</u>	<u>( 2,322)</u>
Student loan notes, net	\$ <u>19,407</u>	\$ <u>21,310</u>

LUC participates in the Perkins federal revolving loan program, among other government revolving loan programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of \$19.5 million at June 30, 2017 and 2016, are ultimately refundable to the government and are classified as refundable advances – loans on the consolidated statements of financial position. At June 30, 2017 and 2016, LUC had past due loans of \$3.5 million and \$3.6 million, respectively. Allowance for doubtful accounts are established based on prior collection experience.

## (6) Land, Buildings and Equipment, Net

Components of land, buildings, and equipment, net, at June 30, 2017 and 2016 were:

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 214,566	\$ 214,360
Buildings	1,338,687	1,324,777
Equipment	149,671	146,367
Library books and art	32,380	32,353
Construction in progress	<u>11,184</u>	<u>5,398</u>
Total	1,746,488	1,723,255
Accumulated depreciation	<u>( 636,581)</u>	<u>( 581,787)</u>
Land, buildings, and equipment, net	\$ <u>1,109,907</u>	\$ <u>1,141,468</u>

As of June 30, 2017, LUC had commitments of \$5.7 million related to various capital projects.

As of June 30, 2017 and 2016, LUC included \$0.5 million and \$0.7 million of capitalized asset retirement costs, net of accumulated depreciation, within buildings. Additionally, \$3.1 million and \$3.0 million of conditional asset retirement obligations were included within other liabilities in the consolidated statements of financial position for fiscal years 2017 and 2016. Expenditures for land, buildings and equipment of \$7.3 million and \$1.7 million are included in accounts payable and accrued expenses in the consolidated statements of financial position as of June 30, 2017 and 2016, respectively. These are reflected as noncash items in the consolidated statements of cash flows.



## (7) Indebtedness

Notes and bonds payable as of June 30, 2017 and 2016 are shown below:

(in thousands of dollars)	Final Maturity	Interest Rate	2017	Interest Rate	2016
Fixed rate:					
Illinois Finance Authority (IFA) (formerly Illinois Educational Facilities Authority (IEFA)):					
Series 2003B taxable bonds	2022	5.60%	\$ 37,520	5.60%	\$ 37,520
Series 2007 tax-exempt bonds	2025	4.38-5.00%	22,720	4.38-5.00%	23,035
Series 2012B tax-exempt bonds	2043	3.00-5.00%	86,545	3.00-5.00%	88,805
Series 2003C taxable direct obligation bonds	2019	5.30%	11,540	5.20-5.30%	19,415
Series 2012A taxable bonds	2043	3.20-4.63%	157,220	3.20-4.63%	157,220
Medium-term notes	2018	7.52%	21,100	7.52%	21,100
2012 term note	2018	2.36%	18,938	2.36%	44,188
Rome Center mortgage note <sup>(1)</sup>	2029	1.51%	<u>9,905</u>	1.51%	<u>9,812</u>
Total fixed rate			<u>365,488</u>		<u>401,095</u>
Variable rate:					
IFA 2008 tax-exempt commercial paper <sup>(2) (3)</sup>	2038	0.89%	<u>74,040</u>	0.47%	<u>74,040</u>
Total variable rate			<u>74,040</u>		<u>74,040</u>
Total principal debt		3.97% <sup>(4)</sup>	<u>439,528</u>	3.85% <sup>(4)</sup>	<u>475,135</u>
Unamortized debt premium/(discount)			8,064		8,984
Unamortized debt issuance costs			( <u>1,955</u> )		( <u>2,201</u> )
Total bonds and notes payable			445,637		481,918
Capital lease obligation			<u>796</u>		<u>1,084</u>
Total indebtedness			<u>\$ 446,433</u>		<u>\$ 483,002</u>

<sup>(1)</sup> Principal amount outstanding is subject to currency (euro) fluctuations.

<sup>(2)</sup> Interest rates shown in the variable rate section of this chart represent the weighted average outstanding interest rate at June 30.

<sup>(3)</sup> The commercial paper is fully backed by a direct-pay letter of credit from PNC Bank, National Association, pursuant to an agreement that expires on April 14, 2019.

<sup>(4)</sup> Weighted average interest rate on all outstanding principal debt as of June 30, 2017, and June 30, 2016, respectively.

LUC recorded no capitalized interest and \$0.1 million of capitalized interest as of June 30, 2017 and 2016, respectively. Bond discounts, premiums, and costs incurred in connection with the issuance of bonds are deferred and amortized over the life of the related indebtedness.

Interest paid for the years ended June 30, 2017 and 2016 was:

(in thousands of dollars)	2017	2016
Interest paid	\$17,977	\$18,743

### Debt Covenants

Certain debt agreements require the maintenance of financial ratios or impose other restrictions. Management believes LUC is in compliance with financial debt covenants as of June 30, 2017.

## Repayments and Classification

Total scheduled maturities for the next five fiscal years are:

(in thousands of dollars)

2018	\$	41,227
2019		14,407
2020		14,898
2021		16,187
2022		17,060
Thereafter		<u>335,749</u>
	\$	<u>439,528</u>

## Disclosure of Fair Value of Long-term Debt

The fair value of the outstanding long-term debt as of June 30, 2017 and 2016 was:

(in thousands of dollars)

	2017		2016	
	Fair	Carrying	Fair	Carrying
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
	\$463,924	\$445,637	\$518,635	\$481,918

The fair value of long-term debt is determined based on discounted cash flows or market prices for comparable borrowings as of June 30, 2017 and 2016. Long-term debt is classified as Level 2 in the ASC 820 fair value hierarchy.

## Lease Obligations

LUC leases equipment under leases classified as capital leases. In 2017, total accumulated amortization related to the leased equipment was \$0.5 million and the interest rate was between 4.99% and 5.03%. Capital lease obligations at June 30, 2017 were \$0.8 million and are included as part of Indebtedness.

Future commitments for capital leases as of June 30, 2017 are as follows:

(in thousands of dollars)

2018	\$	351
2019		351
2020		<u>145</u>
Total minimum lease payments		847
Less: interest	(	<u>51</u> )
Capital lease obligations	\$	<u>796</u>

## (8) Retirement Plans

Substantially all personnel participate in either a defined contribution retirement plan or a defined benefit pension plan (LUERP). LUC froze pension benefits in LUERP effective March 31, 2004 for all but a grandfathered group of "ameliorated" participants. This group was allowed to continue to earn additional Adjusted Benefit Credited Service accruals for a period of up to five years. The LUERP plan is governed by ERISA. Effective April 1, 2004, LUC established a new defined contribution plan. LUC's expense under this plan was \$22.1 million and \$21.7 million for 2017 and 2016, respectively. Summary information for the defined benefit pension plan, LUERP, follows:

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
<b>Change in projected benefit obligation</b>		
Projected benefit obligation, beginning of year	\$ 97,179	\$ 89,107
Interest cost	2,997	3,497
Benefits paid	( 6,690)	( 6,071)
Actuarial (gain)loss	( 1,191)	10,646
Projected benefit obligation, end of year	\$ <u>92,295</u>	\$ <u>97,179</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	\$ 54,048	\$ 57,619
Actual return on plan assets	2,696	64
Employer contributions	7,763	2,436
Benefits paid	( 6,690)	( 6,071)
Fair value of plan assets, end of year	\$ <u>57,817</u>	\$ <u>54,048</u>
<b>Funded status</b>		
Funded status of the plans	\$( <u>34,478</u> )	\$( <u>43,131</u> )
<b>Amounts included in the statements of financial position</b>		
Pension and other postretirement plan liabilities	\$( <u>34,478</u> )	\$( <u>43,131</u> )
<b>Amounts not yet recognized in net periodic pension cost and included in unrestricted net assets</b>		
Actuarial loss	\$ <u>66,904</u>	\$ <u>69,588</u>
<b>Pension plan changes other than net periodic pension plan expense</b>		
	\$ <u>2,685</u>	\$( <u>12,693</u> )
<b>Components of net pension expense</b>		
Service cost	\$ -	\$ -
Interest cost	2,997	3,497
Expected return on plan assets	( 3,525)	( 3,842)
Net amortization and deferral	2,322	1,731
Settlement expense	-	-
Net periodic pension expense	\$ <u>1,794</u>	\$ <u>1,386</u>
<b>Weighted average assumptions</b>		
Discount rate - benefit obligations	3.67%	3.39%
Discount rate - pension expense	3.39%	4.11%
Rate of compensation increase	n/a	n/a
Expected long-term return on assets	7.00%	7.00%

Net actuarial loss of \$2.3 million for the plan will be amortized as non-operating activities from unrestricted net assets into net periodic benefit cost during the 2018 fiscal year.

The defined benefit pension plan asset allocation at the June 30 measurement date was as follows:

	<u>2017</u>	<u>2016</u>
Cash	1%	2%
Equity securities	29%	26%
Fixed income securities	55%	56%
Private equity investments	1%	1%
Other, including real estate	<u>14%</u>	<u>15%</u>
Total	<u>100%</u>	<u>100%</u>

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy level and NAV as a practical expedient as of June 30, 2017:

(in thousands of dollars)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV Prac Exp</u>
<u>2017</u>					
Cash and Cash Equivalents	\$ 722	\$ 722	\$ -	\$ -	\$ -
U.S. Marketable Equity Securities	3,603	3,603			
U.S. Marketable Equity Mutual Funds	6,730	6,730			
U.S. Marketable Equity Commingled Funds	2,016				2,016
Non-U.S. Marketable Equity Securities	152	152			
Non-U.S. Marketable Equity Mutual Funds	4,457	4,457			
Non U.S. Marketable Equity Comingled Funds	3,722				3,722
Other Equity Securities	48			48	
Fixed Income Mutual Funds	7,306	7,306			
Fixed Income Collective Trusts	3,049				3,049
U.S. Treasury and Government Agency Debt Obligations	1,731	1,099	632		
U.S. State and Municipal Debt Obligations	1,300		1,300		
U.S. Corporate Debt Securities	15,784		15,784		
Non U.S. Corporate Debt Securities	2,819		2,819		
Asset Backed Securities	82		82		
Private Equity Investments	389				389
Real Assets Commingled Funds	3,899				3,899
Private Real Assets Investments	<u>8</u>				<u>8</u>
Total	<u>\$ 57,817</u>	<u>\$ 24,069</u>	<u>\$ 20,617</u>	<u>\$ 48</u>	<u>\$ 13,083</u>

The following table summarizes the changes in fair value of the LUERP Level 3 investments for the year ended June 30, 2017:

(in thousands of dollars)	<u>Other Equity Securities</u>	<u>Total</u>
Balance at July 1, 2016	\$ 48	\$ 48
Realized loss	( 2)	( 2)
Unrealized gain	2	2
Sales		
Balance at June 30, 2017	<u>\$ 48</u>	<u>\$ 48</u>

The table below summarizes LUC's fair value measurements of the LUERP investment portfolio by the fair value hierarchy level and NAV as a practical expedient as of June 30, 2016:

(in thousands of dollars)

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV Prac Exp</u>
<u>2016</u>					
Cash and Cash Equivalents	\$ 1,271	\$ 1,271	\$ -	\$ -	\$ -
U.S. Marketable Equity Securities	2,975	2,975			
U.S. Marketable Equity Mutual Funds	6,697	6,697			
U.S. Marketable Equity Commingled Funds	1,675				1,675
Non-U.S. Marketable Equity Securities	129	129			
Non-U.S. Marketable Equity Mutual Funds	3,465	3,465			
Non U.S. Marketable Equity Comingled Funds	3,262				3,262
Other Equity Securities	48			48	
Fixed Income Mutual Funds	6,797	6,797			
Fixed Income Collective Trusts	3,896				3,896
U.S. Treasury and Government Agency Debt Obligations	( 275)	( 637)	362		
U.S. State and Municipal Debt Obligations	1,196		1,196		
U.S. Corporate Debt Securities	15,643		15,643		
Non U.S. Corporate Debt Securities	2,827		2,827		
Asset Backed Securities	96		96		
Private Equity Investments	476				476
Real Assets Commingled Funds	3,861				3,861
Private Real Assets Investments	9				9
Total	<u>\$ 54,048</u>	<u>\$ 20,697</u>	<u>\$ 20,124</u>	<u>\$ 48</u>	<u>\$ 13,179</u>

The following table summarizes the changes in fair value of the LUERP Level 3 investments for the year ended June 30, 2016:

(in thousands of dollars)	<u>Other Equity Securities</u>	<u>Total</u>
Balance at July 1, 2015	\$ 48	\$ 48
Realized gain (loss)		
Unrealized gain (loss)		
Sales		
Balance at June 30, 2016	<u>\$ 48</u>	<u>\$ 48</u>

LUERP assets are held in trust by an external trustee. The trust portfolio is managed in accordance with the policies established by the LUERP Retirement Allowance Committee. Management developed the estimates of the expected long-term rates of return on plan assets based upon the investment mix and the expected rates of return for the various investment strategies employed.

Expected future benefit payments for the years ended June 30 are as follows:

<u>Fiscal Year</u>	<u>Payments</u>
2018	\$ 15,101
2019	6,951
2020	6,909
2021	6,687
2022	6,481
2023-2027	29,319

LUC expects to make employer contributions of \$7.3 million in fiscal year 2018.

## (9) Other Postretirement Benefits

LUC has a defined benefit retiree health plan covering eligible employees upon their retirement. Health benefits are provided subject to various cost-sharing features and are not prefunded.

Defined benefit retiree health plan costs included in the consolidated statements of activities and changes in net assets for LUC for the years ended June 30, 2017 and 2016 were:

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
<b>Change in benefit obligation</b>		
Benefit obligation, beginning of year	\$ 45,421	\$ 37,635
Service cost	1,999	2,352
Interest cost	1,379	1,356
Participant contributions	824	915
Benefits paid	( 2,851)	( 2,704)
Actuarial (gain) loss	<u>( 2,185)</u>	<u>5,867</u>
Benefit obligation, end of year	\$ <u>44,587</u>	\$ <u>45,421</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	\$ -	\$ -
Employer contributions	2,027	1,789
Participant contributions	824	915
Benefits paid	<u>( 2,851)</u>	<u>( 2,704)</u>
Fair value of plan assets, end of year	\$ -	\$ -
<b>Funded status</b>		
Funded status of plan	\$ ( <u>44,587</u> )	\$ ( <u>45,421</u> )
<b>Amounts included in the statements of financial position</b>		
Pension and other postretirement plan liabilities	\$ ( <u>44,587</u> )	\$ ( <u>45,421</u> )
<b>Amounts not yet recognized in net periodic benefit cost and included in unrestricted net assets</b>		
Actuarial (gain)loss	\$ ( 1,523)	\$ 663
Prior service benefit	<u>-</u>	<u>( 17)</u>
Total	\$ ( <u>1,523</u> )	\$ <u>646</u>
<b>Retirement plan changes other than net periodic retirement plan expense</b>	\$ <u>2,169</u>	\$ ( <u>6,132</u> )
<b>Components of net periodic postretirement benefit cost</b>		
Service cost	\$ 1,999	\$ 2,352
Interest cost	1,379	1,356
Amortization of unrecognized prior service benefit and actuarial gain	<u>( 17)</u>	<u>( 265)</u>
Net periodic postretirement benefit cost	\$ <u>3,361</u>	\$ <u>3,443</u>
Discount rate	3.34%	2.98%

The discount rate of 3.34% for 2017 is used to calculate the benefit obligation for the year ended June 30, 2017 and the benefit cost for fiscal year 2018.

### Health care cost trend rate assumptions for the plan

	<u>2017</u>	<u>2016</u>
<b>Current health care cost trend rate</b>		
Pre-65 medical trend	6.60%	6.95%
Post-65 medical and drug trend	6.25%	6.50%

<b>Ultimate health care cost trend rate</b>	<u>2017</u> 5%	<u>2016</u> 5%
Year of Ultimate Trend Rate - Pre-65 medical	2025	2025
Year of Ultimate Trend Rate - Post-65 medical and drug	2024	2024

Net actuarial gain and prior service benefits of \$16 thousand for the plan will be amortized from unrestricted net assets into net periodic postretirement benefit cost during the 2018 fiscal year.

#### Effect of a 1% change in the health care cost trend rates

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
<b><u>1% increase</u></b>		
On year-end postretirement benefit obligations	\$ 748	\$ 899
On total of service and interest cost components	56	81
<b><u>1% decrease</u></b>		
On year-end postretirement benefit obligations	\$ ( 720)	\$ ( 847)
On total of service and interest cost components	( 57)	( 83)

#### Estimated future benefit payments

(in thousands of dollars)

<u>Fiscal</u> <u>Year</u>	<u>Payments</u>
2018	\$ 2,641
2019	3,185
2020	3,683
2021	4,122
2022	4,472
2023-2027	21,623

Effective July 1, 2004, LUC changed its plan for retiree health benefits. New retirees after 2006 will receive an account-based retiree medical subsidy. The subsidy will be an annual allocation of \$2,750 (not indexed) towards an interest-bearing account. The allocations will be given for each year of active employment after age 50, up to a maximum of 15 years. The accounts cannot be accessed until after age 60 and 10 years of continuous service. Accounts will continue to earn interest during retirement and can be used by the retiree or spouse to pay qualified retiree medical expenses, including monthly premiums for coverage under LUC's health plan.

#### (10) Functional Classification of Expenses

Expenses are reported in the consolidated statements of activities and changes in net assets in natural classifications. Expenses by functional classification for the years ended June 30, 2017 and 2016 were:

(in thousands of dollars)	<u>2017</u>	<u>2016</u>
Instruction	\$ 192,419	\$ 185,572
Research and other sponsored programs	41,241	43,476
Academic support	73,862	70,912
Student services	56,859	56,313
Institutional support	114,730	113,606
Auxiliary services	<u>59,771</u>	<u>58,740</u>
Total operating expenses	\$ <u>538,882</u>	\$ <u>528,619</u>

## (11) Restricted Net Assets

The program restrictions for temporarily and permanently restricted net assets at June 30, 2017 and 2016 were:

(in thousands of dollars)

	<u>2017</u>	<u>2016</u>
<b>Temporarily Restricted</b>		
Academic or program support and student financial aid	\$ 147,552	\$ 125,541
Research	7,212	6,741
Student loans	3,375	3,267
Construction	5,681	5,376
Other	<u>23,576</u>	<u>24,207</u>
Total temporarily restricted net assets	\$ <u>187,396</u>	\$ <u>165,132</u>
<b>Permanently Restricted</b>		
Academic or program support and student financial aid	\$ 174,688	\$ 166,855
Research	1,962	1,962
Student loans	<u>1,148</u>	<u>1,148</u>
Total permanently restricted net assets	\$ <u>177,798</u>	\$ <u>169,965</u>

## (12) Commitments and Contingencies

Various lawsuits, claims, and other contingent liabilities occasionally arise in the ordinary course of LUC's education and research activities. In the opinion of management, all such matters have been adequately provided for, are without merit, or are of such kind that if disposed of unfavorably, would not have a material effect on LUC's financial position or results of operations. Commitments for capital projects are disclosed in Note 6.

## (13) Relationship with Trinity Health

During fiscal year 2011, LUC completed a transaction with Trinity Health, an Indiana not-for-profit corporation located in Livonia, Michigan, pursuant to a Definitive Agreement dated March 31, 2011 (the Definitive Agreement). As part of the transaction, Trinity Health replaced LUC as the sole member of Loyola University Health System (LUHS) and all of its affiliates including Loyola University Medical Center (LUMC), Gottlieb Health Resources (GHR), Gottlieb Memorial Hospital (GMH), and Loyola University of Chicago Insurance Company Ltd (LUCIC). Trinity Health assumed control of all the assets of LUHS and retained all of the liabilities of LUHS. The closing date of the transaction was June 30, 2011. The transaction resulted in a gain of \$42.3 million and \$8.9 million that was reported as discontinued operations at June 30, 2011 and 2012, respectively.

LUC entered into the following agreements with Trinity Health as part of the transaction:

### *Academic Affiliation Agreement*

The education and research components of LUC's health sciences, including the Medical School and the Nursing School, remain with LUC following the Trinity Health transaction. LUC, LUHS, and LUMC have entered into an Academic Affiliation Agreement which includes negotiated terms and conditions and which provides for an annual academic support payment to LUC from LUHS and LUMC (which payment is guaranteed by Trinity Health). The annual academic support payment amount was set at \$22.5 million in fiscal year 2012 (subject to an inflation adjustment) for an initial term of ten years. LUC reported \$23.5 million and \$23.4 million of academic support in the consolidated statements of activities and changes in net assets in fiscal years 2017 and 2016, respectively.



### *Research Facility Funding Agreement*

Pursuant to the Definitive Agreement, Trinity Health is required to make a \$75.0 million payment to LUC for the construction and related start-up expenses of a new research enterprise facility that will be owned by LUC. LUC will also invest \$75.0 million to match the Trinity Health payment for the construction and related start-up expenses. In fiscal year 2017, LUC received \$3.3 million from Trinity Health, which is reported as net cash provided from discontinued operations in the consolidated statements of cash flows. The remaining \$10.7 million is reported as a receivable from Trinity Health in the consolidated statements of financial position. LUC anticipates to receive this amount in fiscal year 2018 as the construction of the research enterprise facility is completed.

#### **(14) Subsequent Events**

LUC has evaluated subsequent events through September 15, 2017, the date the consolidated financial statements were issued.

On August 23, 2017, LUC entered into a Term Loan Agreement with PNC Bank, National Association, in the amount of \$22.4 million at a fixed interest rate of 2.56%, payable semi-annually. The purpose of the loan was to call and retire the Illinois Finance Authority Series 2007 tax-exempt bonds in the same amount. The bonds were called on August 25, 2017 and are no longer outstanding. The amortization schedule for the 2017 Term Loan closely resembles the maturity schedule for the called 2007 bonds.

LUC's Board of Trustees approved the dissolution of the Loyola Rome Center Foundation on June 9, 2017. LUC is the sole founder of the Foundation and the dissolution is expected to occur during fiscal year 2018.

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